

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GRAYSON)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2021-00191
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On July 6, 2021, Grayson County Water District (Grayson District) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. In its application, Grayson District requested rates that would increase annual water sales revenues by \$190,523, a 5.23 percent increase to pro forma present rate water sales revenues.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated July 15, 2021, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding Grayson District's application. Pursuant to the procedural Order, on October 6, 2021, Staff issued a report (Staff Report) summarizing its findings regarding Grayson District's requested rate adjustment. In the Staff Report, Staff found that Grayson District's adjusted test-year operations support an overall revenue requirement of \$4,125,405 and that an annual revenue increase of \$191,337, or 5.25 percent, is necessary to generate the overall revenue requirement.¹

¹ Staff Report at 4.

On October 15, 2021, 2021, Grayson District filed with the Commission its comments on the Staff Report.² In its response, Grayson District did not agree with Staff's adjustment to insurance expenses or Staff's removal of certain labor expenses from nonrecurring charges. However, Grayson District did not wish to object to these adjustments in this case or offer any alternative adjustment. Grayson District did not object to Staff's recommendations regarding the useful lives of various asset types but reserved the right to contest such recommendations in future rate proceedings. Grayson District concurred with the rest of Staff's findings and requested the Commission approve the rates recommended in the Staff Report. Grayson District accepted the Staff Report's recommended revenue requirement and proposed rates. Grayson District did not request a conference and waived its right to a hearing in this matter.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and to the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Grayson District is allowed to charge its customers "only 'fair, just and reasonable rates.'"³ Further, Grayson District bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

² Response to Commission Staff Report (filed Oct 15, 2021).

³ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Pub. Serv. Comm'n v. Com. of Kentucky v. Dewit Water District*, 720 S.W.2d 725 (Ky. 1986).

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. Grayson District's test-year water loss was 7.86 percent. Accordingly, at a 7.86 percent water loss, the annual cost to Grayson District is \$47,346.⁴

BACKGROUND

Grayson District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 6,606 customers in Grayson County, Kentucky.⁵ Grayson District both produces and purchases its water from the city of Leitchfield. This is Grayson District's first general rate adjustment case since August 6, 2008.

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of Grayson District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Grayson District's pro forma income statement as follows:

⁴ Staff Report at 1–2.

⁵ *Annual Report of Grayson District Water and Sewer District to the Public Service Commission for the Calendar Year Ended December 31, 2020 (Annual Report)* at 12 and 49.

	<u>2020 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Staff Report Pro Forma</u>
Operating Revenues	\$ 3,611,342	\$ 168,409	\$ 3,779,751
Operating Expenses	<u>3,501,788</u>	<u>(189,319)</u>	<u>3,312,469</u>
Net Operating Income	109,554	357,728	467,282
Interest Income	25,565	-	25,565
Nonutility Income	<u>279,067</u>	<u>-</u>	<u>279,067</u>
Income Available for Debt Service	<u>\$ 414,186</u>	<u>\$ 357,728</u>	<u>\$ 771,914</u>

REVENUE REQUIREMENT ADJUSTMENTS

Grayson District proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Staff Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

Billing Analysis Adjustment. In the Staff Report, Staff recommended that the Commission accept Grayson District's proposal to increase its test-year revenues from metered water sales of \$3,347,731 by \$168,329⁶ to reflect the normalization of the increase of sales revenues due to a Certificate of Public Convenience and Necessity received during the test year. The Commission finds that this adjustment is reasonable and should be accepted.

Sales for Resale. In the Staff Report, Staff recommended the Commission accept Grayson District's proposal to decrease Sales for Resale by \$1,964⁷ to reflect a decrease in the rate charged to the city of Caneyville. The Commission finds that Grayson District's adjustment is reasonable and should be accepted.

⁶ Staff Report at 8, Adjustment A.

⁷ *Id.*, Adjustment B.

Other Water Revenues-Forfeited Discounts. In the Staff Report, Staff recommended the Commission accept Grayson District's proposed increase of \$44,674 to Forfeited Discounts.⁸ This adjustment is to annualize late payment fees collected during the test year by averaging the past three years. The Commission finds that this adjustment is reasonable and should be accepted.

Miscellaneous Service Revenue-Nonrecurring Charges. In the Staff Report, Staff discusses Grayson District's Nonrecurring Charges,⁹ in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, were removed. Staff recommended a reduction to Grayson District's test-year other water revenues of \$42,270¹⁰ to reflect the change in the nonrecurring charges. The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and should be accepted.

Rents from Water Property. In the Staff Report, Staff recommended a reduction to Grayson District's Rents from Water Property of \$360¹¹ to reflect a reconciliation of a discrepancy between the application and the adjusted trial balance. The Commission finds that this adjustment is a known and measurable change to Rents from Water Property is reasonable, and should be accepted.

Salaries and Wages- Employees. In the Staff Report, Staff recommended a decrease in pro forma Salaries and Wages Expense of \$10,387¹² to reflect an increase

⁸ *Id.* at 8 and 9, Adjustment C.

⁹ *Id.* at 5 and 6.

¹⁰ *Id.* at 9, Adjustment D.

¹¹ *Id.*, Adjustment E.

¹² *Id.* at 9 and 10, Adjustment F.

in the wage rate for Grayson District's employees due to a cost of living adjustment and a merit increase and the normalization of regular hours worked for the test year of 2,080. The Commission finds that this adjustment is reasonable and should be accepted.

Expenses Related to Meter Installations. In the Staff Report, Staff recommended that the Commission accept Grayson District's proposal to decrease its Salaries and Wages- Employees by \$24,451¹³ to reflect the removal of expenses related to the installation of 76 new water connections. The Commission finds that this adjustment is reasonable and should be accepted.

Employee Pensions and Benefits-Retirement Contribution. In the Staff Report, Staff recommended an increase to Grayson District's test-year Employee Pensions and Benefits by \$2,130¹⁴. This adjustment is to reflect the increase to Employee's 401 retirement plan due to the changes to Salaries and Wages expense. The Commission finds that this adjustment is a known and measurable change to salaries and wages, is reasonable, and should be accepted.

Employee Pensions and Benefits-Insurance. In the Staff Report, Staff recommended a reduction to Grayson District's test-year Employee Health Insurance expense totaling \$53,461¹⁵ to reflect Commission policy of reducing benefit expenses for utilities that pay 100 percent of its employees' health insurance coverage. The total adjustment reflects a reduction of 22 percent for single and 34 percent for family insurance plans, the national average employee contribution rate. This adjustment is consistent

¹³ *Id.* at 10 and 11, Adjustment G.

¹⁴ *Id.* at 11 and 12, Adjustment H.

¹⁵ *Id.* at 12-14, Adjustment I.

with Commission precedent¹⁶ in which the Commission has reduced benefits expenses for utilities that pay 100 percent of an employee's health insurance coverage. The Commission finds that this adjustment is reasonable and should be accepted.

Purchased Water Expense. In the Staff Report, Staff recommended a decrease in Purchased Water Expense of \$9,395¹⁷ to reflect the reconciliation between Grayson District's Adjusted Trail Balance and Staff's calculation of Purchased Water. The Commission finds that this adjustment is known, measurable, and reasonable and should be accepted.

Purchased Water Expense. In the Staff Report, Staff recommended that the Commission accept Grayson District's proposal to decrease its Purchased Water Expense by \$50,663¹⁸ to reflect a reduction of purchased water from the city of Leitchfield. The reduction is due to the completion of three interconnections that permit areas previously supplied with water from the city of Leitchfield to be supplied with water from Grayson District. The Commission finds that this adjustment is known, measurable, and reasonable and should be accepted.

Purchased Power Expense. In the Staff Report, Staff recommended that the Commission accept Grayson District's proposal to increase Purchased Power Expense by \$8,961¹⁹ to reflect increase in power required in the water treatment plant to produce the additional gallons of water required because of the completion of the three

¹⁶ See, Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates*, (Ky. PSC June 20, 2019) at 8–12.

¹⁷ Staff Report at 14 and 15, Adjustment J.

¹⁸ *Id.* at 15 and 16, Adjustment K.

¹⁹ *Id.* at 16, Adjustment L.

interconnections mentioned above. The Commission finds that this adjustment is reasonable and should be accepted.

Chemical Expense. In the Staff Report, Staff recommended that the Commission accept Grayson District's proposal to increase Chemical Expense by \$4,619²⁰ to reflect the increase in water produced because of the completion of the three interconnections mentioned above. The Commission finds that this adjustment is reasonable and should be accepted.

Depreciation. In the Staff Report, Staff recommended a decrease in Depreciation Expense of \$803,989²¹ in keeping with Commission precedent²² of using NARUC Study depreciable life midpoint when no evidence exists to support a specific life that is outside the NARUC ranges. The Commission finds that this adjustment is reasonable and should be accepted, as it is consistent with Commission precedent.

Depreciation-Capitalization of Test Year Water Taps. In the Staff Report, Staff recommended a decrease to Grayson District's test-year Depreciation expense of \$575²³ to reflect the increase in annual depreciation expense related to the installation of the 76 new water connections. The Commission finds that this adjustment is reasonable and should be accepted.

²⁰ *Id.* at 16 and 17, Adjustment M.

²¹ *Id.* at 17 and 18, Adjustment N.

²² Case No. 2016-00163 *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

²³ Staff Report at 18 and 19, Adjustment O.

Taxes Other Than Income- FICA. In the Staff Report, Staff recommended a decrease to Grayson District’s test-year Taxes Other Than Income of \$2,665²⁴ to reflect the changes to FICA tax due to the \$34,838 decrease in Salaries and Wages Expense mentioned above. The Commission finds that this adjustment is reasonable and should be accepted.

Taxes Other Than Income-Public Service Commission (PSC) Assessment. In the Staff Report, Staff recommended an increase to Taxes other Than Income of \$531.²⁵ The total adjustment reflects the increase in PSC assessment due to an increase of test-year revenues. The Commission finds that this adjustment is reasonable and should be accepted.

Based on the Commission’s findings discussed above, the following table summarizes Grayson District’s adjusted pro forma operations:²⁶

	<u>Staff Report Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$ 3,779,751		\$3,779,751
Utility Operating Expenses	<u>3,312,469</u>		<u>3,312,469</u>
Net Operating Income	467,282		467,282
Interest Income	25,565		25,565
Nonutility Income	<u>279,067</u>		<u>279,067</u>
Income Available for Debt Service	<u>\$ 771,914</u>	<u>\$ -</u>	<u>\$ 771,914</u>

²⁴ *Id.* at 19, Adjustment P.

²⁵ *Id.* at 19 and 20, Adjustment Q.

²⁶ See Appendix A to this Order for a complete pro forma.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Grayson District requires an increase in revenues of \$191,337, or 5.25 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$3,312,469
Plus: Average Annual Principal and Interest Payment	677,447
Debt Coverage Requirement	<u>135,489</u>
Total Revenue Requirement	4,125,405
Less: Revenues Required to serve Caneyville	(128,752)
Other Operating Revenue	(68,672)
Non-Operating Revenue	(66,267)
Interest Income	<u>(25,565)</u>
Revenue Required From Water Sales	3,836,149
Less: Revenue from Retail Sales at Present Rates	<u>(3,644,812)</u>
Required Revenue Increase	<u>\$ 191,337</u>
Percentage Increase	5.25%

RATE DESIGN

Grayson District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 5.23 percent. Grayson District has not performed a cost of service study (COSS). Grayson District stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS, and it is unknown when the last COSS for Grayson District was completed.²⁷

The Commission finds that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered

²⁷ Grayson District's Response to Staff's First Request (filed Aug. 13, 2021), Item 8.

into the record demonstrating that this method is unreasonable and in the absence of a COSS. In the Staff Report, Staff followed the method proposed by Grayson District and allocated Staff's calculated revenue increase across the board to Grayson's monthly retail water service rates.

The rates set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable and will produce sufficient revenues from water sales to recover the \$3,836,149 Revenue Required from Rates, an approximate 5.25 percent increase. These rates will increase a typical residential customer's monthly water bill from \$35.08 to \$36.93, an increase of \$1.85, or approximately 5.27 percent.²⁸

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to Grayson District's pro forma operations results in an Overall Revenue Requirement of \$4,125,405. A revenue increase of \$191,337 from water service rates is necessary to generate the overall revenue requirement.

²⁸ The typical residential customer uses approximately 3,234 gallons per month.

3. The water service rates proposed by Grayson District would produce inadequate revenues and should be denied.

4. The water service rates set forth in Appendix B to this Order are fair, just and reasonable and should be approved for service rendered on or after the date of this Order.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The general service rates proposed by Grayson District are denied.

3. The rates set forth in Appendix B to this Order are approved for services rendered by Grayson District on and after the date of this Order.

4. Within 20 days of the date of entry of this Order, Grayson District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

5. Grayson District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation, or retained earnings should be made to account for this change in the accounting estimate.

6. This case is closed and removed from the Commission's docket.

By the Commission

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DEC 14 2021
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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2021-00191

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00191 DATED DEC 14 2021

	Test Year	Staff Report Adjustment	Commission Adjustments	Final Pro-Forma
Operating Revenues				
Metered Sales	\$ 3,347,731	\$ 168,329		\$ 3,516,060
Sales for Resale	130,716	(1,964)		128,752
Total Sales of Water	3,478,447	166,365		3,644,812
Other Water Revenues				
Forfeited Discounts	8,778	44,674		53,452
Misc. Service Revenues	57,490	(42,270)		15,220
Rents from Water Property	66,627	(360)		66,267
Total Operating Revenues	3,611,342	168,409		3,779,751
Operating Expenses				
Operation and Maintenance Expenses				-
Salaries and Wages - Employees	941,731.00	(10,387)		931,344
		(24,451)		(24,451)
Salaries and Wages - Officers	30,000	-		30,000
Employee Pensions and Benefits	326,895	2,130		329,025
		(53,461)		(53,461)
Purchased Water	418,616.00	(9,395)		409,221
		(50,663)		(50,663)
Purchased Power	130,865.00	8,961		139,826
Chemicals	52,374.00	4,619		56,993
Materials and Supplies	190,907			190,907
Contractual Services	233,034			233,034
Rental of Bldg./Real Property				-
Transportation Expenses	40,337			40,337
Insurance	79,234			79,234
Advertising				-
Commission Expense				-
Bad Debt	16,568			16,568
Miscellaneous Expense	91,210			91,210
Total Operation and Maintenance Expenses	2,551,771	(132,647)		2,419,124
Depreciation	859,101	(55,113)		803,988
		575		575
Amortization				-
Taxes Other Than Income	90,916	(2,665)		88,251
		531		531
Utility Operating Expenses	3,501,788	(189,319)		3,312,469
Net Operating Income	109,554	357,728		467,282
Interest Income	25,565			25,565
Nonutility Income	279,067			279,067
Income Available to Service Debt	414,186	357,728		\$ 771,914

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00191 DATED DEC 14 2021

The following rates and charges are prescribed for the customers in the area served by Grayson County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8-inch Meter

First	1,500 Gallons	\$20.37 Minimum Bill
Next	8,500 Gallons	0.00955 Per Gallon
Next	40,000 Gallons	0.00858 Per Gallon
Next	100,000 Gallons	0.00761 Per Gallon
Over	150,000 Gallons	0.00667 Per Gallon

3/4-inch Meter

First	3,000 Gallons	\$34.68 Minimum Bill
Next	7,000 Gallons	0.00955 Per Gallon
Next	40,000 Gallons	0.00858 Per Gallon
Next	100,000 Gallons	0.00761 Per Gallon
Over	150,000 Gallons	0.00667 Per Gallon

1-inch Meter

First	5,000 Gallons	\$53.78 Minimum Bill
Next	5,000 Gallons	0.00955 Per Gallon
Next	40,000 Gallons	0.00858 Per Gallon
Next	100,000 Gallons	0.00761 Per Gallon
Over	150,000 Gallons	0.00667 Per Gallon

1 1/2-inch Meter

First	10,000 Gallons	\$101.51 Minimum Bill
Next	40,000 Gallons	0.00858 Per Gallon
Next	100,000 Gallons	0.00761 Per Gallon
Over	150,000 Gallons	0.00667 Per Gallon

2-inch Meter

First	16,000 Gallons	\$152.98 Minimum Bill
Next	34,000 Gallons	0.00858 Per Gallon

Next 100,000 Gallons	0.00761 Per Gallon
Over 150,000 Gallons	0.00667 Per Gallon

3-inch Meter

First 30,000 Gallons	\$273.07 Minimum Bill
Next 20,000 Gallons	0.00858 Per Gallon
Next 100,000 Gallons	0.00761 Per Gallon
Over 150,000 Gallons	0.00667 Per Gallon

4-inch Meter

First 50,000 Gallons	\$444.63 Minimum Bill
Next 100,000 Gallons	0.00761 Per Gallon
Over 150,000 Gallons	0.00667 Per Gallon

6-inch Meter

First 100,000 Gallons	\$825.11 Minimum Bill
Next 50,000 Gallons	0.00761 Per Gallon
Over 150,000 Gallons	0.00667 Per Gallon

8-inch Meter

First 150,000 Gallons	\$1,205.59 Minimum Bill
Over 150,000 Gallons	0.00667 Per Gallon

10-inch Meter

First 250,000 Gallons	\$1,872.87 Minimum Bill
Over 250,000 Gallons	0.00667 Per Gallon

Nonrecurring Charges

Connection Fee	\$15.00
Turn-On Charge	\$15.00
Turn-On Charge (After Hours)	\$113.00
Meter Re-read Charge	\$15.00
Meter Re-read Charge (After Hours)	\$113.00
Meter Test Charge	\$15.00
Reconnection Fee	\$30.00
Reconnection Fee (After Hours)	\$170.00
Service Call/Investigation	\$15.00
Service Call/Investigation (After Hours)	\$113.00
Service Line Investigation	\$15.00
Meter Tampering Charge	\$60.00
Returned Check Charge	\$10.00

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